

MAINE BUREAU OF INSURANCE

Application for Certificate of Authority

“Initial Free Surplus” Defined

During the course of licensure in the State of Maine, every applicant is subjected to Title 24-A M.R.S.A. §410. One of the requirements of this statute states that in order to qualify for authority to transact any one kind of insurance, when first so authorized, an insurer must possess initial free surplus, all in amounts not less than the statutory amounts as determined by the table included in this Section of the law.

It appears that the term “initial free surplus” has been the subject of discussion and disagreement in the recent past. In order to solidify its meaning, the Financial Analysis Division of the Maine Bureau of Insurance offers the following excerpt regarding this subject as defined by Terrie E. Troxel, Ph.D., CPCU, CLU, and George E. Bouchie, CPA, CPCU in their textbook “Property-Liability Insurance Accounting and Finance” (third edition, pp. 127-128):

***Unassigned funds* represent the retained earnings less dividends since the inception of the company. This account reflects all adjustments to surplus, such as the charge for unauthorized reinsurance, additional liability for Schedule P loss reserves, and unrealized capital gains or losses on investments. The amount of unassigned surplus sets a limit on the amount that can be distributed as nonliquidating dividends to policy holders or stockholders. A liquidating dividend is a return *of* the owner’s investment in the company while a nonliquidating dividend is the return *on* the owner’s investment. Because nonliquidating dividends can come only from unassigned surplus, this account is sometimes referred to as “free surplus.”**

This defines free surplus. The language “initial” refers to when a company is initially attempting to become licensed in the State of Maine. This supports the position of the Financial Analysis Division of the Maine Bureau of Insurance through use of industry standards. If there is need for further clarification, please feel free to contact the Financial Analysis Division at the number listed below.

Financial Analysis Division
(207) 624-8489

g:\fa\speclic\prelims\fresurpl.doc